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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000564

SIPDIS

STATE FOR SPECIAL ENVOY CBGRAY, EEB:SMANN, EUR:MBRYZA
STATE PLEASE PASS USTDA DSTEIN AND JMERRIMAN

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SUBJECT: ROMANIA: LNG IN CONSTANTA IMPORTANT, BUT OK TO GO
SLOW

Classified By: Charge d'Affaires Mark A. Taplin for reasons 1.4 (b) and (d).

¶1. (SBU) Summary. EconOff meet recently with Viorel Palasca, State Secretary at the Ministry of Economy and Finance (MEF), and then accompanied visiting USTDA country manager for Romania Jamie Merriman to a follow-up meeting with working-level staff from the MEF, Romgaz, and the Ministry of Foreign Affairs (MFA) to talk about the development of an LNG terminal in Constanta. The latter meeting was the first time that an MFA official had sat in on an energy discussion with the MEF, and points to the increased attention energy issues are receiving within the Government of Romania (GOR) and perhaps to a more assertive future role for MFA in this area. During the joint meeting, Romgaz and the MEF expressed their unwillingness to move ahead quickly with sole-sourcing the project feasibility study to U.S. contractor ETG, insisting instead on following a lengthy competitive selection process. End summary.

¶2. (SBU) USTDA country manager for Romania, Jamie Merriman, and EconOff met with MEF officials on June 20th to discuss the Ministry's position with regard to a proposed LNG project in Constanta. Representatives from Romgaz and MFA also attended, although the MFA representative was primarily an observer and did not offer substantive comments. TDA has agreed to consider funding a feasibility study for an LNG terminal in response to a proposal from a U.S. consortium led by ETG; the ETG submission resurrected a project the company first sought to pursue with the GOR in the late 1990's. Unfortunately, Cristian Serban, Head of the Department for International Cooperation at Romgaz, informed Merriman that Romgaz was technically unprepared to move forward quickly on a feasibility study. While on a policy level the GOR remains committed to the LNG terminal concept, Romgaz is insisting that TDA conduct a competition to select the U.S. private sector partner to perform the study. Liviu Stoican, Office Director at the Energy Directorate of the MEF, said that because Romgaz is a state-owned company, it must follow all public procurement rules and put out a tender for conducting a feasibility study. (ETG's lawyers disagree and have told post they suggested language to Romgaz that would avoid triggering any public procurement requirements. Romgaz, however, seems not inclined to use it.) When pressed, Stoican and Serban stated that regardless of what the lawyers work out, Romgaz wants to avoid the appearance of a sole source contract, even if the proposal is entirely legal under Romanian law.

¶3. (C) The earlier June 17 meeting with State Secretary Palasca was unusual. In previous discussions Palasca has been fully engaged and well-informed on a broad range of energy issues involving U.S. interests. However, on this occasion he seemed unaware of recent USG-GOR interactions on the energy front. He left it to his assistant to explain the

Ministry's position with regard to the necessity of following public procurement procedures for the LNG terminal feasibility study, offering only limited comments of his own.

He also insisted that he had no prior knowledge of discussions about a potential GOR-hosted ministerial-level meeting of Nabucco partner countries and suppliers in the fall. Palasca's professed ignorance was surprising, as his office at MEF would have to play a leading role in organizing any such gathering. (Comment: Post has raised this idea with several key interlocutors, and it appears that while the GOR supports the concept of a Nabucco meeting, it is not actively pursuing the organization of one. End comment.)

¶4. (SBU) On the Nabucco Intergovernmental Agreement (IGA), Palasca did say that the GOR has approved a memorandum on the IGA and that he hoped that the IGA would be approved by the remaining partners in September. The IGA will clarify the rights and responsibilities of the partner countries and companies in the Nabucco Consortium. He also indicated that he understood from his meetings with Government of Turkmenistan (GOT) officials that the GOT had agreed to supply 15 bcm of gas to Nabucco. He told EconOff that he urged Turkmen officials on his last trip to work on connecting their offshore fields to Azerbaijan's pipeline network as a way to get natural gas into Nabucco.

¶5. (C) Comment. The meeting between USTDA's Merriman and MEF was surprising in that the outcome on the LNG project contrasted with previous statements by GOR interlocutors. Post's impression has always been that this project was a high priority and that the GOR was committed to moving quickly to implement it. Instead, the current emphasis

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appears to be on process, even if it means declining the proffered deal from ETG (and since this would not directly harm prospects for USTDA grant funding). Post has heard anecdotally that some MEF officials may have an unfavorable view of ETG based on interactions back in the 1990's, and that may also be influencing the Romanian stance. End comment.

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